Susan Combs Texas Comptroller of Public Accounts

Rx:

Diagnosis: Cost— An Initial Look at the Federal Health Care Legislation's Impact on Texas

June 4, 2010

Ladies and Gentlemen:

As Texas Comptroller, I am committed to helping our state cultivate a thriving economic climate. Part of this effort includes monitoring developments that affect state finances and the Texas economy. We have been watching with great interest the recent legislation enacted by the federal government affecting the nation's health care system and have completed this initial analysis of its impact to the state.

In March of this year, President Obama signed the Patient Protection and Affordable Health Care Act (HR 3590) and the Health Care and Education Reconciliation Act of 2010 (HR 4872) into law. This legislation will have far-reaching effects on the state's budget as well as its citizens, its businesses and, thus, its economy.

This report, *Diagnosis: Cost – An Initial Look at the Federal Health Care Legislation's Impact on Texas*, includes our preliminary estimates of these effects. It should be noted that many factors are still unknown as the supporting rules have not been written by the federal government. In fact, out of the 78 major provisions examined in this report, there were 50 for which the fiscal impact could not be determined at this time.

As my research staff continues its study of health care spending in Texas, they will continue monitoring future developments regarding the federal health care legislation and will provide updated estimates as additional information becomes available.

I hope you will find this report helpful.

Sincerely,

Susan Combs

Introduction

President Obama signed the Patient Protection and Affordable Health Care Act (HR 3590) into law on March 23, 2010 and the Health Care and Education Reconciliation Act of 2010 (HR 4872) on March 30, 2010, setting in motion a number of changes that will significantly remake the U.S. health care system.

This legislation seeks to increase the number of insured in the U.S. by pushing individuals and businesses into coverage through incentives and sanctions; expanding Medicaid; and changing many of the insurance industry's current practices.

The legislation also attempts to reduce inefficiencies and wasteful spending in the Medicare program. In its arguments for health care legislation, the Obama administration cited research by the Dartmouth Atlas of Health Care that purports to show up to $700 billion could be saved by reducing waste and inefficiencies in Medicare. Recent research, however, has disputed this number.[1]

The new legislation also will expand the health care work force through grants and loan repayment programs, and will offer businesses and individuals incentives for participation in prevention and wellness programs. Many of these changes will affect the Texas economy and the state budget.

In many instances, however, the extent of these impacts cannot be assessed until the federal government establishes rules to put the new laws into effect. The tables in this report highlight many of the most critical provisions of the health care legislation and examine their effect on businesses, individuals and government.

The main goal of the federal health care legislation is to increase the number of Americans covered by health insurance. Texas, with more than 6 million uninsured children and adults, has the nation's highest uninsured rate (25.1 percent).[2] Many of these uninsured will become eligible for Medicaid.

The expansion of Medicaid will raise income thresholds for many populations from 100 percent to 133 percent of the federal poverty level (FPL). Other new provisions will allow many adults currently excluded from Medicaid to participate. The Texas Health and Human Services Commission (HHSC) estimates that caseloads for Medicaid and the Children's Health Insurance Program (CHIP) in Texas will increase by more than 1.8 million by fiscal 2014, and more than 2.1 million by fiscal 2019 as a result of the federal legislation.[3]

The federal legislation also will provide a new marketplace, through "exchanges," for the purchase of commercial insurance in 2014. Health insurance will be available through these exchanges to eligible persons (U.S. citizens and legal residents) who are not offered insurance through their employers, and to businesses with fewer than 100 employees.

The exchanges may be run by the states; if a state opts not to create one, the federal government will establish an exchange for that state. Each exchange will allow businesses and individuals to select from a number of qualified health plans. They also may offer plans from multiple states.

Plans offered through these exchanges must meet federal requirements related to essential benefits and maximum out-of-pocket expenses. Health plans currently available in individual and group markets will not have to meet most of these new federal requirements; they will, however, be subject to some, such as the elimination of annual limits on the dollar value of benefits, restrictions on maximum waiting periods and the expansion of dependent coverage.

When an individual seeks to purchase insurance through an exchange, it will determine whether he or she is eligible for Medicaid or for subsidies. Individuals with family incomes of between 133 percent and 400 percent of FPL will be eligible for premium assistance and various tiers of cost-sharing subsidies, based on income level.

The exchanges will begin operating in 2014. To meet the demands of some of the uninsured more quickly, temporary high-risk pools will be established. The high-risk pools may be run by states, or if states decline, the federal government. Governor Rick Perry informed the U.S. Department of Health and Human Services that Texas will not establish a new high-risk pool, leaving its administration to the federal government.

The health care legislation requires citizens to purchase health insurance and places sanctions on individuals and on businesses with 50 or more full-time employees that do not do so. The penalty for individuals will be phased in beginning in 2014, resulting in an annual penalty in 2016 of $695 or 2.5 percent of taxable income, whichever is greater, with family penalties of three times the individual penalty. The maximum penalty for an individual or family is $2,085. These penalties will be indexed to inflation after 2016.

Businesses with 50 or more full-time equivalent employees (FTE) will be fined $2,000 for every full-time employee they have if the business has at least one full-time employee who enters an exchange and is eligible for a subsidy. For these businesses, the first 30 full-time employees will not be counted. In other words, if a business has 50 full-time employees and does not offer insurance, and had at least one full-time employee eligible for a subsidy in an exchange, the business will be fined $2,000 each for 20 full-time employees.

Similarly, if a business with 50 or more employees offers insurance and its full-time employees' share of the premium is large enough to qualify for premium assistance, the business will pay $3,000 for each full-time employee receiving premium assistance, or $2,000 for every full-time employee.

Businesses with fewer than 50 full-time employees are not subject to penalties.

Small employers with 25 or fewer full-time employees that pay average annual wages of less than $40,000 and who contribute at least 50 percent of the cost of their employees' health insurance will be eligible for tax credits. These credits will be up to 35 percent of the businesses' contribution to health insurance (increasing to 50 percent in 2014) and 25 percent for nonprofit organizations, increasing to a maximum of 35 percent in 2014.

The legislation also changes the private insurance market. Beginning October 1, 2010, insurance plans no longer will be allowed to set lifetime limits on the dollar values of their benefits; deny coverage to children with pre-existing conditions; or rescind coverage once offered. Plans also will be required to cover dependent children up to age 26 even if they are married. Beginning in 2014, plans no longer will be allowed to deny coverage to any individuals with pre-existing conditions, require lengthy waiting periods before coverage begins or set annual limits on the dollar values of benefits. These provisions are likely to result in higher premiums for some health insurance plans.

State of Texas health plans administered by the Employees Retirement System (ERS), the University of Texas System and Texas A&M University System all will be affected by some of these changes. None of them currently set limits on in-network coverage or deny coverage due to pre-existing conditions. They will, however, be affected by changes to waiting periods and expanded dependent coverage.

Commercial insurance carriers also will be required to report their medical loss ratios — that is, the share of premiums going to cover clinical or medical costs. These ratios will be required to be no less than 85 percent for plans in the large-group market and 80 percent in the small-group market.

A number of individuals and businesses will be affected by accompanying changes in tax laws. Fees or excise taxes will be assessed against health insurers, pharmaceutical and medical-device manufacturers and tanning facilities to cover some of the bills' costs.

The definition for "qualified health expenses" for health savings accounts (HSAs), health reimbursement arrangements, Archer medical savings accounts (MSAs) and flexible savings accounts (FSAs) will become uniform and will exclude some over-the-counter medications unless a prescription is written. HSAs and MSAs will see an increase in the taxable amount on dollars used for nonmedical expenses. The maximum contribution level for flexible savings accounts will be lowered, resulting in higher payroll and income taxes. For certain individuals and couples, the tax rate for Medicare will increase, as will their taxes on investments and other unearned income.

The State of Texas budget will be affected as well. ERS, the UT System and the Texas A&M System will see costs (some shared with members) increase from the expansion of the dependent population and the shorter waiting periods for coverage of some new employees. These systems may receive federal revenues to cover some of the expenses of early retirees for a short period of time.

The expansion of Medicaid also will affect the state's budget. State funds will be needed to cover the state's share of an increased caseload. On the other hand, the federal government will increase its contribution for certain populations and services. And the state can expect increased revenue from drug rebates due to larger caseloads. The

Texas Department of State Health Services also may have programs affected by the new legislation, resulting in a lower need for general revenue to pay for them.

The larger number of insured, including those covered by Medicaid and CHIP, will increase state revenues from the premium tax. Other budget effects may result from grant opportunities, demonstration projects and required staffing for administering exchanges, regulatory oversight and eligibility determination. Which agencies are affected by some of these provisions will be determined by the Legislature.

Increasing the number of persons with health insurance is likely to increase demand for health care services, which could have an adverse impact on access unless the health care work force grows. The acts create a number of programs aimed at recruiting and retaining health care professionals, including grants, loan repayment programs and managing available graduate medical education slots to ensure that all are used.

Some of the programs focus on increasing the numbers of primary-care and family physicians, nurses, physician assistants, allied health professionals, long-term care attendants and other health care professionals. Others focus on directing health professionals to rural and health care shortage areas. Rural health clinics and federally qualified health centers also will receive increased funding.

The legislation also includes a number of prevention and wellness programs. The acts establish a National Prevention, Health Promotion and Public Health Council along with task forces to disseminate evidenced-based recommendations on preventative health and wellness activities to individuals, businesses and governments. A number of grants will be made available to businesses, schools, communities and governments to initiate prevention activities, build or expand health centers and conduct research on these topics.

The major impact to individuals and businesses and, therefore, the state's economy will be from increased fees and taxes, subsidies and tax credits, grants and loan repayments and the expansion of health care services due to the increasing numbers of insured. Hospitals will see their amount of federal disproportionate share hospital funds decrease, but also will see a decrease in uncompensated care costs. Doctors and hospitals are likely to see an increase in the number of patients and an increase in some rates, but also may be affected by the legislation's move towards value-based reimbursements in the Medicare program.

Doctors and hospitals also are concerned about lower levels of rate increases in some Medicare programs and other Medicare spending reductions recommended by the newly established Independent Payment Advisory Board.

Finally, a big unknown for state government and the state's economy is the effect of the legislation on premiums and health care costs. The rate of increase without this legislation is widely regarded as unsustainable; whether the acts will bend the cost curve up or down is not yet known.

Many of the Comptroller's estimates are based on estimates of direct spending and revenue effects from the Congressional Budget Office and the Joint Committee on Taxation. Because the Comptroller's office did not have access to the assumptions behind the federal estimates, we used various measures to estimate the effects on Texas. Other estimates were provided by state agencies.

It is important to note that this report represents only a preliminary look at cost effects. Many potentially significant effects of the health legislation cannot be determined at this time, since the supporting rules have not yet been written. Of the 78 provisions examined in this report, the Comptroller was unable to determine fiscal estimates for 50.

Many unknowns must be clarified before a full assessment of the legislation's fiscal impact can be made. We will continue to monitor the latest developments regarding federal changes to the health care system and will update the fiscal impact estimates included in this report as additional information becomes available. Please visit the Comptroller's Window on State Government website at http://www.window.state.tx.us/specialrpt/healthFed/ for future updates to this report.

Endnotes

1. Reed Abelson and Gardiner Harris, "Critics Question Study Cited in Health Debate," *New York Times* (June 2, 2010), http://www.nytimes.com/2010/06/03/business/03dartmouth.html?src=busln. (Last visited June 3, 2010.)
2. U.S. Census Bureau, Current Population Survey, Table HI06. Health Insurance Coverage Status by State for All People: 2008, 2009 Annual Social and Economic Supplement.
3. Texas Health and Human Services Commission, Presentation to House Select Committee on Federal Legislation, April 22, 2010.

Estimates of Selected Provisions

This section summarizes many of the significant provisions found in the 2010 federal health care legislation and estimates, where possible, the fiscal impact to Texas. Many of the provisions analyzed in this report require further rulemaking by the federal government before any estimate of impact can be determined. In addition, this report does not make assumptions regarding future policy decisions or actions by the federal government or the state legislature that could cause additional impact to the state.

The provisions included in this report affect different entities. The following analysis examines the fiscal impact on businesses and individuals, where applicable, in addition to any impact on the state government. It would not be a valid comparison to add and compare the costs and revenues estimated in the report; such "netting" would not provide an accurate result of the legislation's overall impact on Texas.

The Comptroller relied on Congressional Budget Office (CBO) and Joint Committee on Taxation (JCT) estimates, in addition to any stated authorized or appropriated amounts within the legislation, to calculate many of the estimates included in this report. The Comptroller's Revenue Estimating division assessed projected revenue to the state from the Premium Tax, and estimates obtained from other state agencies were included where available. Where CBO and JCT data were used, the Comptroller applied various measures (based, for example, on the state's population, number of businesses or number of uninsured relative to that of the nation) to determine the proportion of their estimate attributed to Texas.

The summaries below divide each of the provisions into three sections:

- An explanation or description of the provision;
- The date on which the provision will take effect; and,
- An estimate, if possible, of the impact to the state's economy and/or the state budget.

All estimates provided are shown in millions of dollars. Costs are represented as negative numbers (in parentheses) while revenues are positive. Each summary references the pertinent section of the acts in brackets.

Individual Responsibility

Provision **1)** The legislation will require U.S. citizens and legal residents to have qualifying health coverage. Individuals and families that do not comply with the mandate will face a phased-in tax penalty. Some exemptions are allowed. [1501/10106/1002-R]

Effective Date January 1, 2014

Fiscal Impact In 2008, about 25 percent of all Texans (6 million) were uninsured. By 2014, the Comptroller estimates that that number will grow to more than 7 million. Of the 7 million, citizens and legal permanent residents will account for 4 million, while HHSC estimates increased caseloads for Medicaid and the Children's Health Insurance Program will account for another 2 million.

The increase in the number of insured in private plans and Medicaid/CHIP will increase revenue from the state's premium tax. The premium tax is imposed on all insurers and health maintenance organizations licensed by the Texas Department of Insurance. **Premium taxes paid by insurers in Texas are estimated at $1.3 billion over fiscal 2010 through 2019.**

Estimated Premium Taxes Paid by Insurers in Texas – Fiscal 2010 to 2019 (Amounts in Millions)

Fiscal Year	State Revenue Collected from Premium Tax	Premium Taxes Paid in Texas
2010	$0.0	$0.0
2011	$0.0	$0.0
2012	$0.9	($0.9)
2013	$2.0	($2.0)
2014	$2.1	($2.1)
2015	$210.5	($210.5)
2016	$226.8	($226.8)
2017	$248.6	($248.6)
2018	$270.9	($270.9)
2019	$293.7	($293.7)
2010-2019	**$1,255.5**	**($1,255.5)**

Numbers may not add due to rounding.

For those who do not purchase insurance, penalties will be phased in beginning with the greater of $95 in 2014, $325 in 2015 and $695 in 2016, or 1 percent of taxable income in 2014, 2 percent in 2015 and 2.5 percent in 2016, with increases dictated by cost-of-living adjustments in following years. The penalty for families is three times the individual penalty. The maximum penalty in 2016 for both individuals and families is $2,085.

The Comptroller's estimate of penalties paid by individuals who do not purchase insurance is based on national estimates from the Congressional Budget Office (CBO). **Penalties paid by individuals in Texas are estimated at $2.2 billion for fiscal 2010 through 2019.**

Estimated Penalties Paid by Individuals in Texas – Fiscal 2010 to 2019 (Amounts in Millions)

Fiscal Year	Estimated Individual Penalties
2010	$0.0
2011	$0.0
2012	$0.0
2013	$0.0
2014	$0.0
2015	($300.0)
2016	($400.0)
2017	($500.0)
2018	($500.0)
2019	($500.0)
2010-2019	**($2,200.0)**

Numbers may not add due to rounding.

Employer Responsibility

Provision **2)** Businesses with 50 or more full-time equivalent employees that do not offer coverage and have at least one full-time employee who receives a premium tax credit (see *Subsidies* below) will be assessed a fee of $2,000 per full-time employee. This penalty excludes the first 30 full-time employees. If businesses offer coverage and have at least one full-time employee receiving a premium tax credit, they will be assessed the lesser of $3,000 per employee receiving a premium credit or $2,000 for each full-time employee. [1513/10106/1003-R]

Effective Date January 1, 2014

Fiscal Impact In 2008, Texas had 123,027 private-sector establishments with 50 or more employees (including full- and part-time workers), employing a total of more than 5.4 million full-time workers (76 percent of all Texas full-time workers). Most of these businesses (91.6 percent) offered (made available or contributed to the cost) health insurance. The total number of public-sector entities and their full-time work force is unknown, but more than 98 percent offered health insurance.

About 47 percent of full-time workers have earnings between 125 and 400 percent of the federal poverty level. Eligibility for premium assistance is 133 percent to 400 percent FPL. Since such a large portion of full-time workers meet premium assistance eligibility, it is likely that all employers with 50 or more employees who do not offer health insurance have at least one eligible worker.

The Comptroller's estimate of penalties paid by businesses that do not conform to the provision is based on national estimates from the CBO. Texas businesses, however, will be disproportionately affected compared with those in other states because Texas has a slightly greater proportion of businesses with 50 or more employees, and those businesses have the nation's lowest rates of insurance coverage.

Penalties paid by Texas businesses are estimated at $9.3 billion for fiscal 2010 through 2019.

Estimated Penalties Paid by Businesses in Texas – Fiscal 2010 to 2019 (Amounts in Millions)

Fiscal Year	Estimated Business Penalties
2010	$0.0
2011	$0.0
2012	$0.0
2013	$0.0
2014	($500.0)
2015	($1,400.0)
2016	($1,800.0)
2017	($1,800.0)
2018	($1,800.0)
2019	($2,000.0)
2010-2019	**($9,300.0)**

Numbers may not add due to rounding.

Provision **3)** Businesses with more than 200 employees that offer coverage will be required to enroll new employees into their plans and continue coverage for current employees. Employees may, however, opt out of coverage. [1511]

Effective Date January 1, 2014

Fiscal Impact This provision is not likely to change what businesses are currently doing. If businesses drop coverage, they will be liable for penalties. **The fiscal impact cannot be estimated at this time.**

Provision **4)** Businesses that offer insurance to employees will be required to offer a voucher to employees who choose to enroll in a plan offered by the exchange. Businesses will be required to offer the voucher only to those employees whose income is less than 400 percent of FPL and whose share of the premium is between 8 and 9.8 percent of their income. The voucher must be equal to what the employer would have paid under the employer's health plan. Businesses providing vouchers will be exempt from penalties for employees that receive premium credits. [10108]

Effective Date January 1, 2014

Fiscal Impact **No impact.**

Subsidies to Individuals

Provision **5)** Premium assistance or premium credits will be available to individuals and families with incomes between 133 and 400 percent of FPL to purchase insurance through the exchanges. This assistance may be paid directly to the insurer or reimbursed to the taxpayers for their share of the premiums. Employees who are offered employer-sponsored insurance are ineligible unless the employer plan has an actuarial value of less than 60 percent or if the employees' share of the premium exceeds 9.5 percent of their incomes. The actuarial value is the share of health care charges paid by a plan, not including premiums. [1401/1001-R]

Effective Date January 1, 2014

Fiscal Impact The amount of premium assistance will be based on the premium amount of the second-lowest "silver plan" available through the exchange and the taxpayer's income relative to the federal poverty level (*see Benefit Design*). The premium assistance amount will cap, on a sliding scale, the share of a taxpayer's income dedicated to paying a premium (2 percent — up to 133 percent of FPL; 3 to 4 percent — 133 to 150 percent of FPL; 4 to 6.3 percent — 150 to 200 percent FPL; 6.3 to 8.05 percent — 200 to 250 percent of FPL; 8.05 to 9.5 percent — 250 to 300 percent of FPL; and 9.5 percent 300 to 400 percent FPL).

See the cost-sharing provision (#6) fiscal impact for combined estimate.

Provision **6)** Cost-sharing credits will be available to eligible individuals and families. These credits reduce cost-sharing amounts such as deductibles and co-pays. Employees who are offered employer-sponsored insurance are ineligible unless the plan has an actuarial value of less than 60 percent or if the employees' share of the premium exceeds 9.5 percent of their income. [1402/1001]

Effective Date January 1, 2014

Fiscal Impact Out-of-pocket limits will be reduced by two-thirds for those earning between 100 percent and 200 percent of FPL; by half for those earning between 200 percent and 300 percent of FPL; and by one-third for those earning between 300 percent and 400 percent of FPL. The Comptroller's estimate of subsidies paid for premium assistance and cost sharing are based on national estimates from the CBO and on Texas' eligible population relative to that of the U.S. **Subsidies paid for eligible individuals in Texas are estimated at $43.5 billion for fiscal 2010 through 2019.**

Estimated Subsidies Paid for Eligible Individuals in Texas – Fiscal 2010 to 2019 (Amounts in Millions)

Fiscal Year	Estimated Subsidies Paid
2010	$0.0
2011	$0.0
2012	$0.0
2013	$0.0
2014	$1,700.0
2015	$4,000.0
2016	$7,300.0
2017	$9,300.0
2018	$10,200.0
2019	$10,900.0
2010-2019	**$43,500.0**

Numbers may not add due to rounding.

Subsidies to Employers

Provision **7)** Small businesses with the equivalent of 25 full-time employees or fewer and average annual wages of less than $40,000 that contribute at least 50 percent to the cost of employee health insurance will be eligible for a tax credit up to 35 percent of their contribution towards the purchase of health insurance (50 percent beginning in 2014). Small nonprofits are eligible for up to 25 percent of cost (35 percent beginning in 2014). Small businesses and nonprofits with 10 or fewer employees and average wages of less than $25,000 will be eligible for the full credit. Wages will be indexed to inflation after 2013. [1421]

Effective Date January 1, 2010

Fiscal Impact Texas has about 301,000 small businesses with fewer than 25 employees accounting for more than 1.2 million full-time employees or 17.1 percent of all full-time employees in the state. Of Texas businesses with fewer than 10 employees, 25.9 percent offer health insurance; 49.8 percent of those with 10 to 24 employees offer health insurance. For both groups, the share offering health insurance is less than the U.S.

The Comptroller's estimate of subsidies paid to small businesses is based on national estimates from the CBO and on Texas' share eligible small businesses relative to that of the U.S. **Subsidies paid for eligible small businesses in Texas are estimated at $1.9 billion for fiscal 2010 through 2019.**

Estimated Subsidies Paid for Eligible Small Businesses in Texas – Fiscal 2010 to 2019 (Amounts in Millions)

Fiscal Year	Estimated Subsidies Paid
2010	$100.0
2011	$200.0
2012	$200.0
2013	$300.0
2014	$200.0
2015	$100.0
2016	$100.0
2017	$100.0
2018	$200.0
2019	$200.0
2010-2019	**$1,900.0**

Numbers may not add due to rounding.

Provision **8)** The legislation establishes a temporary reinsurance program that will reimburse employers for 80 percent of retiree claims of between $15,000 and $90,000. Eligible employers include those who purchase health insurance for retirees over the age of 55 who are not eligible for Medicare. The program will expire on January 1, 2014 and is limited to funds available. [1102]

Effective Date July 1, 2010

Fiscal Impact The U.S. Department of Health and Human Services (HHS) has been appropriated $5 billion for this program through January 1, 2014. The Comptroller cannot determine the number of entities that would submit claims to the HHS secretary. The Comptroller's estimate of claims paid is based on national estimates from CBO and on Texas' statewide population relative to that of the U.S. **Claims paid for early retirees in Texas are estimated at $404.4 million for fiscal 2010 through 2019.**

Estimated Claims Paid for Early Retirees in Texas – Fiscal 2010 to 2019 (Amounts in Millions)

Fiscal Year	Estimated Claims Paid
2010	$58.1
2011	$115.4
2012	$115.4
2013	$115.4
2014	$0.0
2015	$0.0
2016	$0.0
2017	$0.0
2018	$0.0
2019	$0.0
2010-2019	**$404.4**

Numbers may not add due to rounding.

ERS, the UT System and Texas A&M System would be eligible to receive these funds. **ERS estimates the impact to the Group Benefits Plan would be $199.1 million for fiscal 2010 through 2019, if fully funded.** These funds are included in the total estimated $404.4 million. UT System and Texas A&M System are continuing to evaluate the impact.

Estimated Impact to the Group Benefits Plan – Fiscal 2010 to 2019 (Amounts in Millions)

Fiscal Year	Estimated Impact
2010	$13.2
2011	$53.5
2012	$54.2
2013	$57.7
2014	$20.5
2015	$0.0
2016	$0.0
2017	$0.0
2018	$0.0
2019	$0.0
2010-2019	**$199.1**

Numbers may not add due to rounding.

Work Force and Access

Provision **9)** The legislation increases the amount of funds available to Federally Qualified Health Centers (FQHCs). [5601]

Effective Date April 1, 2010

Fiscal Impact FQHCs will be eligible to receive increased grants. The amounts available are $3 billion in fiscal 2010; $3.9 billion in fiscal 2011; $5 billion in fiscal 2012; $6.4 billion in fiscal 2013; $7.3 billion in fiscal 2014; $8.3 billion in fiscal 2015; and adjusted amounts for fiscal 2016 and beyond. The Comptroller is unable to estimate the amount of funds awarded to FQHCs in Texas. **The fiscal impact cannot be estimated at this time.**

Provision **10)** The legislation establishes the competitive health care work force development program to plan and implement activities to address health care work force demands at state and local levels. [5102]

Effective Date April 1, 2010

Fiscal Impact Planning grants will be awarded annually to state work force investment boards. The maximum grant amount will be $150,000, with a match of at least 15 percent. HHS is authorized to award $8 million in fiscal 2010 and necessary funds in each subsequent year. The governor of the state receiving the planning grant can appoint a fiscal or administrative entity. Implementation grants will be awarded to state partnerships for activities addressing work force demands. A 25 percent match will be required. HHS is authorized to award $150 million in fiscal 2010 and such sums necessary in subsequent years. The Comptroller is unable to determine whether the state would seek or receive planning and implementation grants. If received,

the Comptroller is unable to estimate the amount of the grants and is, therefore, unable to estimate the impact on the state's work force or economy. **The fiscal impact cannot be estimated at this time.**

Provision **11)** The legislation establishes a number of loan repayment programs to increase the number of pediatricians and public health professionals. [5203]

Effective Date April 1, 2010

Fiscal Impact The pediatric loan repayment program will provide up to $35,000 for up to three years to qualified health professionals who practice in areas with shortages in pediatric specialties. HHS is authorized $30 million per year for this program for fiscal 2010 through 2014. The public health work force loan repayment plan will provide up to $35,000 for up to three years to qualified health professionals who practice in areas with critical shortages. HHS is authorized to award $195 million for this program in fiscal 2010 and sums necessary in fiscal 2011 through 2015. The Comptroller is unable to determine the number of health care professionals who would seek these funds. If received, the Comptroller is unable to estimate the amount of the grants and is, therefore, unable to estimate the impact on the state's work force in shortage areas or the economy. **The fiscal impact cannot be estimated at this time.**

Provision **12)** The legislation provides grants to hospitals and medical schools for training in family medicine, general internal medicine, general pediatrics and physician assistants. [5301]

Effective Date April 1, 2010

Fiscal Impact $125 million is authorized for this program, with 15 percent dedicated to physician assistants training, in fiscal 2010 and sums necessary for fiscal 2011 through 2014. The Comptroller is unable to determine the amount of funds awarded in Texas and is, therefore, unable to estimate the impact on the state's budget or the economy. **The fiscal impact cannot be estimated at this time.**

Provision **13)** The legislation provides grants for training in mental and behavioral health care. [5306]

Effective Date April 1, 2010

Fiscal Impact Grants will be awarded to institutions of higher education in fiscal 2010 through 2013 in the amount of $8 million in social work, $12 million in graduate psychology, $10 million in child and adolescent mental health and $5 million in paraprofessional child and adolescent work. The Comptroller is unable to determine the amount of funds awarded in Texas and is, therefore, unable to estimate the impact on the state's work force or the economy. **The fiscal impact cannot be estimated at this time.**

Provision **14)** The legislation provides enhanced funding to Nurse-Managed Health Clinics or nurse-practice arrangements. [5208]

Effective Date April 1, 2010

Fiscal Impact Nurse-practice arrangements associated with a school, FQHC or nonprofit that provide primary care services to underserved populations are eligible for grants to cover the cost of operating the clinics. HHS is authorized to award $50 million in fiscal 2010 and sums necessary in fiscal 2011 through 2014. The Comptroller is unable to determine the amount of funds awarded in Texas and is, therefore, unable to estimate the impact on the state's work force or the economy. **The fiscal impact cannot be estimated at this time.**

Provision **15)** The legislation provides grants for nurse education, practice and retention. [5309]

Effective Date April 1, 2010

Fiscal Impact Nursing schools and health care facilities are eligible to receive grants to promote career advancement; develop and implement internships and residency programs; and retain nurses to enhance patient care. Sums necessary to fund these grants will be available for fiscal 2010 through 2012. The Comptroller is unable to determine the amount of funds awarded in Texas and is, therefore, unable to estimate the impact on the state's work force or the economy. **The fiscal impact cannot be estimated at this time.**

Provision **16)** The legislation provides grants for nurse student-loan repayment. [5311]

Effective Date April 1, 2010

Fiscal Impact Nurses who agree to become full-time faculty members at nursing schools are eligible to receive up to $20,000 a year to repay student loans. Sums necessary to fund these grants will be available for fiscal 2010 through 2014. The Comptroller is unable to determine the amount of loan repayment in Texas and is therefore unable to estimate the impact on the state's work force or the economy. **The fiscal impact cannot be estimated at this time.**

Provision **17)** The legislation establishes the Community Health Center Fund to expand and sustain investment in community health centers and to build and renovate community health centers. The legislation also provides enhanced funding to the National Health Service Corps, which recruits and retains health professionals in shortage areas. [10503/2303-R]

Effective Date October 1, 2010

Fiscal Impact Enhanced funding for community health centers will be $1 billion in fiscal 2011, $1.2 billion in fiscal 2012, $1.5 billion in fiscal 2013, $2.2 billion in fiscal 2014 and $3.6 billion in fiscal 2015. Enhanced funding for the corps will be $290 million in fiscal 2011; $295 million in fiscal 2012; $300 million in fiscal 2013; $305 million in fiscal 2014; and $310 million in fiscal 2015. Another $1.5 billion will be available for the construction and renovation of community health centers in fiscal 2011 through 2015. The Comptroller is unable to determine the amount of funds awarded in Texas and is therefore unable to estimate the impact on the state's work force or the economy. **The fiscal impact cannot be estimated at this time.**

Provision **18)** Grants for training of direct care workers employed in long-term care settings will be provided. [5302]

Effective Date October 1, 2010

Fiscal Impact Institutions of higher education will be eligible to receive funding. HHS is authorized $10 million for fiscal 2011 through 2013. The Comptroller is unable to determine the amount of these funds to be awarded in Texas and is therefore unable to estimate the impact on the state's budget or economy. **The fiscal impact cannot be estimated at this time.**

Provision **19)** The legislation provides payments for direct and indirect expenses to teaching health centers that operate graduate medical education (GME) programs. [5508]

Effective Date October 1, 2010

Fiscal Impact For fiscal 2011 through 2015, $230 million has been appropriated for payments for these expenses. The Comptroller is unable to determine the amount of funds to be awarded in Texas and is therefore unable to estimate the impact on the state's budget or economy. **The fiscal impact cannot be estimated at this time.**

Tax Changes

Provision **20)** The adoption credit and adoption assistance programs will expand from $10,000 to $13,170. [10909]

Effective Date January 1, 2010

Fiscal Impact The legislation increases the adoption tax credit to $13,170 and extends this increased level through December 31, 2011 for families who adopt children who are under age 18 or physically or mentally unable to care for themselves. In fiscal 2009, the foster care system in Texas had 6,386 children awaiting adoption, and 4,859 children were adopted from foster care. The Comptroller is unable to estimate the amount of adoption subsidies for Texas families. **The fiscal impact cannot be estimated at this time.**

Provision **21)** A 10 percent tax will be assessed on the amount paid for indoor tanning services. [10907]

Effective Date July 1, 2010

Fiscal Impact The Texas Department of State Health Services reports that Texas has 1,633 tanning facilities. The Comptroller's estimate of excise taxes paid by tanning facilities is based on national estimates from the CBO and the number of Texas facilities relative to those in the U.S. **Excise taxes paid by tanning facilities in Texas are estimated at $182.7 million for fiscal 2010 through 2019.**

Estimated Excise Taxes Paid by Tanning Facilities in Texas – Fiscal 2010 to 2019 (Amounts in Millions)

Fiscal Year	Estimated Excise Taxes Paid
2010	$0.0
2011	($13.5)
2012	($13.5)
2013	($20.3)
2014	($20.3)
2015	($20.3)
2016	($20.3)
2017	($20.3)
2018	($20.3)
2019	($20.3)
2010-2019	**($182.7)**

Numbers may not add due to rounding.

Provision **22)** The costs of over-the-counter drugs not prescribed by a doctor will not be covered by flexible spending accounts, health savings accounts and medical savings accounts.

Effective Date January 1, 2011

Fiscal Impact The Comptroller is unable to estimate the impact of this provision. The result may be that participants, including those at ERS, the UT System and Texas A&M System, dedicate less to these accounts, resulting in higher payroll and income taxes. **The fiscal impact cannot be estimated at this time.**

Provisions **23)** The tax on HSA and MSA withdrawals for non-qualified medical expenses will increase to 20 percent. [9004]

Effective Date January 1, 2011

Fiscal Impact The Comptroller is unable to estimate the number of individuals in Texas affected by this provision. The Comptroller's estimate of increased taxes paid by these individuals is based on national estimates from the CBO and on Texas' statewide population relative to that of the U.S. **Taxes paid by affected individuals in Texas are estimated at $113 million for fiscal 2010 through 2019.**

Estimated Taxes Paid by Affected Individuals in Texas – Fiscal 2010 to 2019 (Amounts in Millions)

Fiscal Year	Estimated Taxes Paid
2010	$0.0
2011	($4.0)
2012	($4.0)
2013	($8.1)
2014	($8.1)
2015	($8.1)
2016	($16.1)
2017	($16.1)
2018	($24.2)
2019	($24.2)
2010-2019	**($113.0)**

Numbers may not add due to rounding.

Provision **24)** Annual fees will be assessed on pharmaceutical manufacturers and importers with branded pharmaceutical sales of more than $5 million. [9008/1404-R]

Effective Date January 1, 2011

Fiscal Impact The fees assessed on pharmaceutical manufacturers will be:

- $2.5 billion in 2011;
- $2.8 billion in 2012-2013;
- $3.0 billion in 2014-2016;
- $4.0 billion in 2017;
- $4.1 billion in 2018; and
- $2.8 billion in 2019 and later.

The Comptroller is unable to estimate the effect of this fee in Texas. Fees may increase health insurance premiums and affect purchasers of insurance. If premiums increase, revenue to Texas in the form of premium taxes also would increase. **The fiscal impact cannot be estimated at this time.**

Provision **25)** The tax rate on Medicare Part A will increase by 0.9 percent on wages for individuals earning more than $200,000 annually and couples earning more than $250,000 annually; a 3.8 percent tax on unearned income will be assessed on the same individuals and couples. [9015/10906]

Effective Date January 1, 2013

Fiscal Impact The Comptroller's estimate of taxes paid is based on estimates provided by the Joint Committee on Taxation and national estimates from CBO. **Taxes paid by affected individuals and couples in Texas are estimated at more $15.8 billion for fiscal 2010 through 2019.**

Estimated Taxes Paid by Affected Individuals and Couples in Texas – Fiscal 2010 to 2019 (Amounts in Millions)

Fiscal Year	Estimated Taxes Paid
2010	$0.0
2011	$0.0
2012	($100.0)
2013	($1,500.0)
2014	($1,200.0)
2015	($2,200.0)
2016	($2,500.0)
2017	($2,600.0)
2018	($2,700.0)
2019	($2,900.0)
2010-2019	**($15,800.0)**

Numbers may not add due to rounding.

Provision **26)** The amount of contributions to flexible spending accounts will be limited to $2,500 per year. This amount will be adjusted annually. [10902/1403-R]

Effective Date January 1, 2013

Fiscal Impact The Comptroller is unable to estimate the number of individuals in Texas affected by this provision, including the members of ERS, the UT System and Texas A&M System. Limiting the amount of FSA contributions would result in higher payroll and income tax paid by individuals who previously contributed more than $2,500. The Comptroller's estimate of increase taxes paid is based on national estimates from the CBO and on Texas' statewide population relative to that of the U.S. **Taxes paid by affected Texas individuals and businesses are estimated at more than $1 billion for fiscal 2010 through 2019.**

Estimated Taxes Paid by Affected Individuals and Businesses in Texas – Fiscal 2010 to 2019 (Amounts in Millions)

Fiscal Year	Estimated Taxes Paid
2010	$0.0
2011	$0.0
2012	$0.0
2013	($121.1)
2014	($169.5)
2015	($169.5)
2016	($161.4)
2017	($153.4)
2018	($137.2)
2019	($137.2)
2010-2019	**($1,049.4)**

Numbers may not add due to rounding.

Provision **27)** The tax deduction for employers who receive Medicare Part D retiree drug subsidy payments will be eliminated. [9012/1407-R]

Effective Date January 1, 2013

Fiscal Impact Beginning in 2013, businesses that provide prescription drug coverage for retirees age 65 and older were subsidized for a portion of those costs. Businesses receiving the subsidies could deduct them from their taxable income. This provision eliminates the deductions of the value of the subsidies. The Comptroller is unable to estimate the number of businesses affected by this provision. The Comptroller's estimate of taxes paid is based on national estimates from the CBO and on Texas' statewide population relative to that of the U.S. **Taxes paid by affected businesses in Texas are estimated at more than $363.3 million for fiscal 2010 through 2019.**

Estimated Taxes Paid by Affected Businesses in Texas – Fiscal 2010 to 2019 (Amounts in Millions)

Fiscal Year	Estimated Taxes Paid
2010	$0.0
2011	$0.0
2012	$0.0
2013	($32.3)
2014	($48.4)
2015	($48.4)
2016	($48.4)
2017	($56.5)
2018	($56.5)
2019	($64.6)
2010-2019	**($363.3)**

Numbers may not add due to rounding.

Provision **28)** An excise tax will be assessed on the sale of taxable medical devices equal to 2.3 percent of the price, excluding eyeglasses, contact lenses, hearing aids and other devices defined by the Secretary of HHS. [1405-R]

Effective Date January 1, 2013

Fiscal Impact The Comptroller is unable to estimate the affect of this excise tax in Texas. **The fiscal impact cannot be estimated at this time.**

Provision **29)** The income threshold for claiming the itemized deduction for unreimbursed medical expenses will increase to 10 percent of adjusted gross income. For individuals aged 65 and older, it will be 7.5 percent of adjusted gross income expiring after 2016. [9013]

Effective Date January 1, 2013

Fiscal Impact The Comptroller's estimate of increased taxes paid is based on national estimates from the CBO and Texas' statewide population relative to that of the U.S. **Taxes paid by affected individuals in Texas are estimated at more than $1.2 billion for fiscal 2010 through 2019.**

Estimated Taxes Paid by Affected Individuals in Texas – Fiscal 2010 to 2019 (Amounts in Millions)

Fiscal Year	Estimated Taxes Paid
2010	$0.0
2011	$0.0
2012	$0.0
2013	($32.3)
2014	($121.1)
2015	($129.2)
2016	($137.2)
2017	($201.8)
2018	($298.7)
2019	($314.8)
2010-2019	**($1,235.1)**

Numbers may not add due to rounding.

Provision **30)** The legislation limits the deductibility of executive and employee compensation of health insurance providers in excess of $500,000. [9014]

Effective Date January 1, 2013

Fiscal Impact The Comptroller is unable to estimate the number of individuals in Texas affected by this provision. The Comptroller's estimate of increased taxes paid by these individuals is based on national estimates from the CBO and on Texas' statewide population relative to that of the U.S. **Taxes paid by affected individuals in Texas are estimated at $48.4 million for fiscal 2010 through 2019.**

Estimated Taxes Paid by Affected Individuals in Texas – Fiscal 2010 to 2019 (Amounts in Millions)

Fiscal Year	Estimated Taxes Paid
2010	$0.0
2011	$0.0
2012	$0.0
2013	($6.9)
2014	($6.9)
2015	($6.9)
2016	($6.9)
2017	($6.9)
2018	($6.9)
2019	($6.9)
2010-2019	**($48.4)**

Numbers may not add due to rounding.

Provision **31)** Annual fees will be assessed on the health insurance sector. Some exemptions apply. [9010/1406-R]

Effective Date January 1, 2014

Fiscal Impact The fees assessed on the health insurance sector are as follows:

- $8 billion in 2014;
- $11.3 billion in 2015 and 2016;
- $13.9 billion in 2017; and
- $14.3 billion in 2018.

The Comptroller is unable to estimate the effect of this fee in Texas. Fees may increase health insurance premiums and affect purchasers of insurance. If premiums increase, revenue to Texas in the form of premium taxes also would increase. **The fiscal impact cannot be estimated at this time.**

Provision **32)** Insurers of employer-sponsored health plans will be assessed an excise tax on the cost of coverage above $10,200 for individual plans and $27,500 for family plans. The capped amount will be indexed. [9001/1401-R]

Effective Date January 1, 2018

Fiscal Impact The Comptroller is unable to estimate the number of these plans in Texas or the impact to insurers from the 40 percent excise tax. The average premium for single plans in Texas in 2008 was $4,205 and $11,967 for family plans. ERS, UT System and Texas A&M System will not be affected. **The fiscal impact cannot be estimated at this time.**

Medicaid/CHIP

Provision **33)** The Medicaid drug rebate increased to 23.1 percent for brand-name drugs and 13 percent of the average price for other select drugs. The rebate is extended to managed-care programs. [2501/1206-R]

Effective Date April 1, 2010

Fiscal Impact Funds from the increase in the rebate percentage will be directed to the federal government, which will result in a loss of funds to the state. Increasing Medicaid caseloads will result in increased rebate funds directed to the state. **The estimated net effect for fiscal 2010 through 2019 is $2.1 billion.**

Estimated Net Effect of Increased Medicaid Drug Rebate – Fiscal 2010 to 2019 (Amounts in Millions)

Fiscal Year	Estimated Net Effect
2010	($2.1)
2011	($16.9)
2012	($19.8)
2013	($21.4)
2014	$272.9
2015	$310.7
2016	$344.3
2017	$372.2
2018	$402.5
2019	$435.2
2010-2019	**$2,077.6**

Numbers may not add due to rounding.

Provision **34)** States will receive a one percentage-point increase in the federal match for providing preventive services recommended by the US Preventive Services Task Force. [4106]

Effective Date January 1, 2013

Fiscal Impact HHSC has not estimated the impact to the state. State general revenue will be offset (reduced) by increased federal funds.

Provision **35)** Medicaid payments to primary care physicians for select services will increase and be covered 100 percent by federal funding for 2013 and 2014. [1202-R]

Effective Date January 1, 2013

Fiscal Impact The estimated impact of rates is included in the estimates for Medicaid and CHIP below.

Provision **36)** Medicaid eligibility will expand to cover all individuals under age 65 with adjusted gross incomes of up to 133 percent of FPL. The CHIP program will temporarily have its federal share of funds increased by 23 percentage points. The enhanced federal match will begin on October 1, 2015, and end September 30, 2019. [2001/1201-R/2101]

Effective Date January 1, 2014

Fiscal Impact HHSC's estimate includes the impact of those currently eligible for Medicaid but not enrolled. The estimate also takes into account the different Federal Medical Assistance Percentages (FMAPs) for those currently eligible for Medicaid, and the enhanced FMAP for the expansion of the adult population as well as

the two-year enhanced FMAP for primary care services and the four-year enhanced FMAP for CHIP. **The estimated cost to general revenue is $5.8 billion for fiscal 2010 through 2019.**

Estimated Impact to General Revenue – Fiscal 2010 to 2019 (Amounts in Millions)

Fiscal Year	Estimated Impact to General Revenue
2010	$0.0
2011	$0.0
2012	$0.0
2013	$0.0
2014	($900.0)
2015	($1,000.0)
2016	($500.0)
2017	($1,000.0)
2018	($1,100.0)
2019	($1,300.0)
2010-2019	**($5,800.0)**

Numbers may not add due to rounding.

The estimated impact from increased federal funds is $76.3 billion for fiscal 2010 through 2019.

Estimated Impact from Increased Federal Funds – Fiscal 2010 to 2019 (Amounts in Millions)

Fiscal Year	Estimated Impact
2010	$0.0
2011	$0.0
2012	$0.0
2013	$0.0
2014	$10,300.0
2015	$11,600.0
2016	$12,400.0
2017	$13,000.0
2018	$14,000.0
2019	$15,000.0
2010-2019	**$76,300.0**

Numbers may not add due to rounding.

Provision **37)** Disproportionate Share Hospital (DSH) payments will be reduced. [2551/1203-R]

Effective Date January 1, 2014

Fiscal Impact DSH payments are directed to both non-state-owned and state-owned hospitals. State-owned hospitals include 10 mental health and mental retardation facilities, one chest hospital and three teaching hospitals. The Comptroller is unable to determine the impact, if any, to state-owned hospitals. Texas may choose to protect those institutions' payments or to proportionally reduce their payments. **The estimated impact from the reduction of DSH payments to all participating hospitals is $879.9 million for fiscal 2010 through 2019.**

Estimated Impact from the Reduction of DSH Payment to Participating Hospitals – Fiscal 2010 to 2019 (Amounts in Millions)

Fiscal Year	Estimated Impact
2010	$0.0
2011	$0.0
2012	$0.0
2013	$0.0
2014	($31.2)
2015	($37.4)
2016	($37.4)
2017	($112.3)
2018	($312.0)
2019	($349.5)
2010-2019	**($879.8)**

Numbers may not add due to rounding.

Provision **38)** A national insurance program will be established to provide individuals with a cash benefit of not less than an average of $50 per day to purchase community living assistance services and supports (CLASS). The program is financed through payroll deductions. Individuals will be automatically enrolled, but may choose to opt out. [8002]

Effective Date January 1, 2011

Fiscal Impact The Comptroller is unable to estimate the number of workers opting out of payroll deduction or the number that would receive payments. The Comptroller and HHSC are unsure how the provision would affect the CLASS program in Texas. **The fiscal impact cannot be estimated at this time.**

Medicare

Provision **39)** The legislation reduces the level of annual increases to Medicare payment rates in a number of fee-for-service categories. [3401/1105-R]

Effective Date January 1, 2010

Fiscal Impact Many Medicare payments to providers are adjusted annually for inflation. Federal legislation would reduce the level of these increases for hospitals, skilled nursing facilities, inpatient rehabilitation facilities, home health agencies and hospices. The Comptroller's estimate of lowered increases in Medicare rates are based on national estimates from the CBO and on Texas' Medicare population relative to that of the U.S. **Reductions in Medicare rate increases in Texas are estimated at $13.2 billion for fiscal 2010 through 2019.**

Estimated Reductions in Medicare Rate Increases in Texas – Fiscal 2010 to 2019 (Amounts in Millions)

Fiscal Year	Estimated Reductions in Medicare Rate Increase
2010	$0.0)
2011	($100.0)
2012	($300.0)
2013	($600.0)
2014	($900.0)
2015	($1,300.0)
2016	($1,700.0)
2017	($2,200.0)
2018	($2,800.0)
2019	($3,400.0)
2010-2019	**($13,200.0)**

Numbers may not add due to rounding.

Provision **40)** The legislation provides a $250 rebate to Medicare Part D beneficiaries who reach the coverage gap. [1101-R]

Effective Date January 1, 2010

Fiscal Impact Nearly 2.9 million Texans receive Medicare benefits. Of those who participate in Medicare Part D drug coverage, Centers for Medicare and Medicaid Services actuaries identified about 493,000 that hit the "doughnut hole" and therefore qualify for the rebate. After 2010, pharmaceutical discounts on brand-name drugs and federal subsidies for generic and brand-name drugs are phased in (*see provisions #45 and #46*). **Rebates paid to Medicare Part D participants in Texas are estimated at $123.3 million for fiscal 2010.**

ERS reports no impact on the Group Benefits Plan.

Provision **41)** The legislation expands Medicare to cover individuals who have been exposed to environmental hazards resulting from a declared emergency made after June 17, 2009. [10323]

Effective Date January 1, 2010

Fiscal Impact This provision is likely to redirect costs from private insurers to Medicare. **The fiscal impact cannot be estimated.**

Provision **42)** Bans new physician-owned hospitals and limits the growth of existing physician-owned hospitals. [6001/10601/1106-R]

Effective Date January 1, 2010

Fiscal Impact CBO estimated the savings of a similar provision in separate legislation in 2008. CBO reported that, by reducing Medicare spending in these types of facilities, Medicare would save $1.8 billion over 10 years. HHS reported in 2008 that Texas accounted for about 30 percent of these facilities. **Reductions in Medicare spending in Texas' physician-owned hospitals are estimated at $545 million for fiscal 2010 through 2019.**

Estimated Reductions in Medicare Spending in Physician-Owned Hospitals in Texas – Fiscal 2010 to 2019 (Amounts in Millions)

Fiscal Year	Estimated Reductions in Medicare
2010	($54.5)
2011	($54.5)
2012	($54.5)
2013	($54.5)
2014	($54.5)
2015	($54.5)
2016	($54.5)
2017	($54.5)
2018	($54.5)
2019	($54.5)
2010-2019	**($545.0)**

Numbers may not add due to rounding.

Provision **43)** Creates the Federal Coordinated Health Care Office within the Centers for Medicare and Medicaid Services to integrate Medicare and Medicaid benefits for dual-eligible clients. [2602]

Effective Date March 1, 2010

Fiscal Impact This coordinated effort may result in savings to Medicare and Medicaid. **The fiscal impact cannot be estimated at this time.**

Provision **44)** The legislation will decrease subsidies for Medicare Advantage plans. [1102-R]

Effective Date January 1, 2011

Fiscal Impact: Payment amounts to Medicare Advantage plans (Medicare Part C) will begin to fall in line with Medicare fee-for-service rates. Payment rates for 2011 will be frozen at 2010 levels and then decreased over time, with reductions phased in starting in 2012. The legislation also provides for bonus payments to these plans for quality of care. These bonuses would lessen the rate of payment reductions. The Comptroller is unable to estimate the amount of bonuses earned in Texas. The Comptroller's estimate of decreased payments to Medicare Advantage plans excluding bonuses is based on national estimates from the CBO and on Texas' Medicare Advantage population relative to that of the U.S. **Medicare Advantage payment reductions in Texas are estimated at $6.5 billion for fiscal 2010 through 2019.**

Estimated Medicare Advantage Payment Reductions in Texas – Fiscal 2010 to 2019 (Amounts in Millions)

Fiscal Year	Estimated Reductions in Medicare Advantage Payments
2010	$0.0
2011	($100.0)
2012	($300.0)
2013	($400.0)
2014	($600.0)
2015	($800.0)
2016	($900.0)
2017	($1,000.0)
2018	($1,100.0)
2019	($1,200.0)
2010-2019	**($6,500.0)**

Numbers may not add due to rounding.

Provision **45)** Pharmaceutical manufacturers will be required to provide a 50 percent discount on brand-name prescriptions filled in the Medicare Part D coverage gap. [3301/1101-R]

Effective Date January 1, 2011

Fiscal Impact These discounts will result in savings to Medicare Part D participants and a decrease in revenue to drug manufacturers. **The fiscal impact cannot be estimated at this time.**

Provision **46)** Federal subsidies will be provided to cover generic prescriptions filled in the Medicare Part D coverage gap. The amount of subsidies will be phased in, reaching 75 percent of cost by 2020. [3301/1101-R]

Effective Date January 1, 2011

Fiscal Impact The Comptroller is unable to estimate the amount of drug costs for Medicare Part D participants is generic. **The fiscal impact cannot be estimated at this time.**

Provision **47)** Primary care physicians and general surgeons practicing in health professional shortage areas will receive a 10 percent bonus payment through 2015. [5501]

Effective Date January 1, 2011

Fiscal Impact This provision includes primary care physicians, nurse practitioners, physician assistants and general surgeons. It expires after 2015. Texas has 1,539 primary care physicians and 550 physician assistants providing services in shortage areas. The Comptroller is unable to estimate the number of other health professionals in shortage areas eligible for bonus payments. **The fiscal impact cannot be estimated at this time.**

Provision **48)** Qualifying hospitals in counties with the lowest quartile of Medicare spending will receive payments totaling $400 million through 2012. [1109-R]

Effective Date January 1, 2011

Fiscal Impact The Comptroller is unable to estimate the amount Texas may receive from funds available. **The fiscal impact cannot be estimated at this time.**

Provision **49)** Medicare payments will be increased to 100 percent of actual charges or fee schedule rates for certain preventive services. [4104/10501]

Effective Date January 1, 2011

Fiscal Impact Health professionals providing these preventive services would see an increase in payments. **The fiscal impact cannot be estimated at this time.**

Provision **50)** The legislation establishes a value-based purchasing program in Medicare to pay hospitals incentives for performance and quality. [3001]

Effective Date October 1, 2012

Fiscal Impact The Comptroller is unable to estimate the amount of incentive payments paid to Texas hospitals. **The fiscal impact cannot be estimated at this time.**

Provision **51)** Federal subsidies will be provided to cover brand-name prescriptions filled in the Medicare Part D coverage gap. The amount of subsidies will be phased in, reaching 25 percent of cost by 2020. [3301/1101-R]

Effective Date January 1, 2013

Fiscal Impact The Comptroller is unable to estimate the amount of brand-name drug costs for Medicare Part D participants. **The fiscal impact cannot be estimated at this time.**

Health Insurance Exchanges

Provision **52)** The legislation establishes the Consumer Operated and Oriented Plan (CO-OP) program to assist in the development of nonprofit, member-run health insurance companies in all 50 states that will offer qualified health plans in the individual and small group markets. [1322]

Effective Date July 1, 2013

Fiscal Impact Some $6 billion in loans and grants will be available to nonprofit insurance companies for startup costs and solvency requirements. The Comptroller is unable to estimate the amount of funds awarded to nonprofits in Texas. **The fiscal impact cannot be estimated at this time.**

Provision **53)** The legislation establishes the American Health Benefit Exchanges and Small Business Health Options Program Exchanges to be administered by a governmental agency or nonprofit organization. The exchanges will allow individuals and businesses with up to 100 employees to purchase qualified coverage. States are permitted to allow businesses with more than 100 employees to purchase coverage in the exchanges as well. States may form regional exchanges. Funding will be available to states. [1311]

Effective Date January 1, 2014

Fiscal Impact The Texas Legislature must determine how the exchanges will be administered. Possibilities include both single or regional exchanges administered by HHSC, the Texas Department of Insurance (TDI) or some other agency. The entity responsible for the exchanges must work with the Medicaid office to determine eligibility for Medicaid and CHIP. The Comptroller is unable to determine what costs, if any, may be associated with the administration of exchanges. TDI has testified that there may be a need for more staff if their agency is selected by the State Legislature to develop and maintain the program. **The fiscal impact cannot be estimated at this time.**

Millions of uninsured Texans will purchase private insurance through the exchange. The Comptroller is unable to estimate the impact of new health care dollars on the Texas economy. The impact on the state's premium tax is addressed above (*see Individual Responsibility*). **The fiscal impact cannot be estimated at this time.**

Provision **54)** States will be allowed to contract with health plans to provide a basic health plan for uninsured individuals with incomes between 133 and 200 percent of FPL who would be eligible to receive premium subsidies in the exchange. States will be eligible to receive federal funding equal to 85 percent of the funds that would have been paid as federal premium and cost-sharing subsidies. Individuals age 65 and older or who have access to employer-sponsored insurance are ineligible. [1331]

Effective Date January 1, 2014

Fiscal Impact The Comptroller is unable to determine if the state would choose to participate. If the state does choose to participate, the Comptroller is unable to estimate the amount of premium and cost-sharing subsidies to be attributed to the eligible population and is therefore unable to estimate the amount of federal funds available to the state. **The fiscal impact cannot be estimated at this time.**

Changes to Private Insurance

Provision **55)** Health plans will have to extend dependent coverage to children (including those who are married) up to age 26 for all individual and group policies. [1001/2301-R]

Effective Date October 1, 2010

Fiscal Impact The legislation requires individual and group plans that cover dependents to continue the coverage until the dependent turns 26 years of age. The new law will not include dependents of dependents. The association representing insurance companies has stated that expanded coverage would result in higher premiums. The Comptroller is unable to estimate the impact on premiums in the commercial market. **The fiscal impact cannot be estimated at this time.**

ERS, the UT System and Texas A&M System would be affected by the legislation. ERS estimates the impact to the Group Benefits Plan and members would be $243.7 million for fiscal 2010 through 2019. The cost would be shared equally.

The estimated impact to the state's budget would be $121.9 million.

Estimated Impact to the State's Budget – Fiscal 2010 to 2019 (Amounts in Millions)

Fiscal Year	Estimated Impact
2010	$0.0
2011	$0.0
2012	($11.1)
2013	($12.0)
2014	($13.1)
2015	($14.3)
2016	($15.6)
2017	($17.0)
2018	($18.5)
2019	($20.2)
2010-2019	**($121.9)**

Numbers may not add due to rounding.

The estimated impact to ERS members would be $121.9 million.

Estimated Impact to ERS Members – Fiscal 2010 to 2019 (Amounts in Millions)

Fiscal Year	Estimated Impact
2010	$0.0
2011	$0.0
2012	($11.1)
2013	($12.0)
2014	($13.1)
2015	($14.3)
2016	($15.6)
2017	($17.0)
2018	($18.5)
2019	($20.2)
2010-2019	**($121.9)**

Numbers may not add due to rounding.

The UT System and Texas A&M System are continuing to evaluate the impact.

Provision **56)** Health plans will be prohibited from placing lifetime limits on coverage. [1001]

Effective Date October 1, 2010

Fiscal Impact The association representing insurance companies stated that market changes and consumer protections required in the legislation will result in higher premiums. ERS, the UT System and Texas A&M System have reported that this provision will not result in an increase in costs. The Comptroller is unable to estimate the impact on premiums in the commercial market. **The fiscal impact cannot be estimated at this time.**

Provision **57)** Health plans will be prohibited from rescinding coverage except in cases of fraud. [1001]

Effective Date October 1, 2010

Fiscal Impact The association representing insurance companies stated that market changes and consumer protections required in the legislation will result in higher premiums. ERS, the UT System and Texas A&M System have reported that this provision will not result in increased costs. The Comptroller is unable to estimate the impact on premiums in the commercial market. **The fiscal impact cannot be estimated at this time.**

Provision **58)** Health plans will be prohibited from denying coverage to children due to a pre-existing condition. [1201/1251/2301-R]

Effective Date October 1, 2010

Fiscal Impact The association representing insurance companies stated that market changes and consumer protections required in the legislation will result in higher premiums. ERS, the UT System and Texas A&M System have reported that this provision will not result in increased costs. The Comptroller is unable to estimate the impact on premiums in the commercial market. **The fiscal impact cannot be estimated at this time.**

Provision **59)** Health plans will be required to provide coverage without cost-sharing for certain preventive services. [1001]

Effective Date October 1, 2010

Fiscal Impact The association representing insurance companies stated that market changes and consumer protections required in the legislation will result in higher premiums. ERS, the UT System and Texas A&M System administer grandfathered plans; therefore, this provision will not result in an increase in costs. The Comptroller is unable to estimate the impact on premiums in the commercial market. **The fiscal impact cannot be estimated at this time.**

Provision **60)** The legislation establishes a high-risk pool through 2013 to provide health coverage to individuals who have been uninsured for at least six months and who have pre-existing conditions. The plan will have a minimum actuarial value of 65 percent and a maximum out-of-pocket amount limited to the current HSA limit ($5,950/individual and $11,900/family in 2010). [1101]

Effective Date October 1, 2010

Fiscal Impact States can use their existing high-risk pools or develop a parallel system. $5 billion will be available in the U.S. to pay claims and administrative costs in excess of amounts collected through premiums. Texas has announced that it will not establish a new risk pool, leaving the administration to the federal government. **The fiscal impact cannot be estimated at this time.**

Provision **61)** Health plans will be required to report medical loss ratios. [1001]

Effective Date January 1, 2011

Fiscal Impact **No fiscal impact.**

Provision **62)** Health plans will be required to spend no less than 85 percent of premium dollars on medical care in the large-group market and no less than 80 percent in the individual and small-group market. [1001/10101]

Effective Date January 1, 2011

Fiscal Impact Plans that exceed the minimum loss ratio will be required to provide a rebate to each enrollee. The amount of the rebate will be the product of the percentage by which the plan exceeded the loss ratio cap and the amount of the premium. The Comptroller is unable to estimate the amount of rebates paid to enrollees. **The fiscal impact cannot be estimated at this time.**

Provision **63)** Health plans will have to justify increases to premiums. [1003]

Effective Date January 1, 2011

Fiscal Impact TDI will be responsible for reviewing unreasonable premium increases and reporting premium information to HHS. Grants totaling $250 million will be made available to states for five years. The Comptroller's estimate of grants paid to TDI is based on Texas' population relative to that of the U.S. **Grants paid to TDI for premium review and reporting are estimated to total $20.2 million for fiscal 2010 through 2019.**

Estimated Grants Paid to TDI for Premium Review and Reporting – Fiscal 2010 to 2019 (Amounts in Millions)

Fiscal Year	Estimated Grants
2010	$4.0
2011	$4.0
2012	$4.0
2013	$4.0
2014	$4.0
2015	$0.0
2016	$0.0
2017	$0.0
2018	$0.0
2019	$0.0
2010-2019	**$20.2**

Numbers may not add due to rounding.

Provision **64)** Health plans will be prohibited from placing annual limits on the dollar value of coverage on individual and group health plans. [1001]

Effective Date January 1, 2014

Fiscal Impact The association representing insurance companies stated that market changes and consumer protections required in the legislation will result in higher premiums. ERS, UT System and Texas A&M System have reported that this provision will not result in an increase in costs. The Comptroller is unable to estimate the impact on premiums in the commercial market. **The fiscal impact cannot be estimated at this time.**

Provision **65)** Health plans will be prohibited from denying coverage due to pre-existing conditions. [1201/1251/2301-R]

Effective Date January 1, 2014

Fiscal Impact The association representing insurance companies stated that market changes and consumer protections required in the legislation will result in higher premiums. ERS, UT System and Texas A&M System have reported that this provision will not result in an increase in costs. The Comptroller is unable to estimate the impact on premiums in the commercial market. **The fiscal impact cannot be estimated at this time.**

Provision **66)** Waiting periods for coverage will not be able to exceed 90 days. [1201]

Effective Date January 1, 2014

Fiscal Impact Texas state government health plans currently require a 90-day waiting period; that period, however, can exceed 90 days because state law requires that coverage begin on the first day of the calendar month after 90 days of service. State law would have to be amended to meet the terms of the federal legislation.

ERS estimates meeting the 90-day waiting period will cost the state $118.9 million for fiscal 2010 through 2019.

Estimated ERS 90-Day Waiting Period – Fiscal 2010 to 2019 (Amounts in Millions)

Fiscal Year	Estimated Waiting Period Cost
2010	$0.0
2011	$0.0
2012	$0.0
2013	$0.0
2014	($15.8)
2015	($17.2)
2016	($18.8)
2017	($20.5)
2018	($22.3)
2019	($24.3)
2010-2019	**($118.9)**

Numbers may not add due to rounding.

The UT System and Texas A&M System are continuing to evaluate the impact.

The association representing insurance companies stated that market changes and consumer protections required in the legislation will result in higher premiums. The Comptroller is unable to estimate the impact on premiums in the commercial market. **The fiscal impact cannot be estimated at this time.**

Provision **67)** Deductibles for health plans in the small-group market will be limited to $2,000 for individuals and $4,000 for families. Some exceptions apply. [1302]

Effective Date January 1, 2014

Fiscal Impact The amounts may increase to the limits set for flexible savings accounts. **The fiscal impact cannot be estimated at this time.**

Provision **68)** The legislation establishes a reinsurance program to provide payments to plans in the individual market that cover high-risk individuals through 2016. [1341]

Effective Date January 1, 2014

Fiscal Impact States will be required to establish a reinsurance program to cover payments for high-risk individuals for three years. Insurance issuers will make these payments. The Comptroller is unable to estimate the impact on premiums in the commercial market. **The fiscal impact cannot be estimated at this time.**

Provision **69)** All new policies offered through the exchanges or outside of the exchanges will be required to comply with one of four benefit categories. See Benefit Design.

Effective Date January 1, 2014

Fiscal Impact **No fiscal impact.**

Provision **70)** States will be allowed to form health choice compacts to allow insurers to sell individual plans in any state participating in the compact. [1333]

Effective Date January 1, 2016

Fiscal Impact Interstate purchasing of health insurance in the individual market has been cited as an opportunity to lower the cost of premiums by introducing competition into the market. The Comptroller is unable to estimate any savings from this provision. **The fiscal impact cannot be estimated at this time.**

Benefit Design

Provision **71)** The legislation establishes four benefit categories of health plans to be offered through the exchanges and in the individual and small-group markets.

Bronze plan: minimum coverage. Covers at least 60 percent of the actuarial value of the covered benefits, with an out-of-pocket limit equal to the Health Savings Account ($5,950 for individual and $11,900 for family).
Silver plan: Covers 70 percent of the benefit costs of the plan, with the HSA out-of-pocket limits.
Gold plan: covers 80 percent of the benefit costs of the plan, with the HSA out-of-pocket limits.
Platinum plan: Covers 90 percent of the benefit costs of the plan, with the HSA out-of-pocket limits. [1302]

Effective Date January 1, 2014

Fiscal Impact The legislation defines the essential health benefits required in packages sold in the individual and group markets and to be provided through the exchange. These benefits must include services in certain categories, limit cost-sharing and meet the actuarial values specified above. The actuarial value is the percent of health care charges paid by a plan, not including premiums. Though not necessarily related, a higher actuarial value usually results in higher premiums. The Comptroller is unable to estimate the impact of the required essential benefits on the industry or enrollees. **The fiscal impact cannot be estimated at this time.**

Prevention and Wellness

Provision **72)** The legislation establishes the National Prevention, Health Promotion and Public Health Council and task forces on preventive services and community preventive services to develop, update and disseminate evidenced-based recommendations on the use of clinical and community prevention services. [4001]

Effective Date April 1, 2010

Fiscal Impact Preventive services may have an impact on future health care costs, but the Comptroller is unable to estimate a return on investment for these services. **The fiscal impact cannot be estimated at this time.**

Provision **73)** The legislation establishes the Prevention and Public Health Investment Fund to increase funding for prevention and public health programs. [4002]

Effective Date April 1, 2010

Fiscal Impact HHS is authorized $500 million in fiscal 2010, $750 million in fiscal 2011, $1 billion in fiscal 2012, $1.25 billion in fiscal 2013, $1.5 billion in fiscal 2014 and $2 billion in subsequent years. The Comptroller is unable to estimate the amount of funds to be awarded in Texas. Preventive services also may have an impact on future health care costs, but the Comptroller is unable to estimate a return on investment for these services. **The fiscal impact cannot be estimated at this time.**

Provision **74)** Grants are available to schools to build, expand or improve school-based health care centers. [4101]

Effective Date April 1, 2010

Fiscal Impact HHS is authorized $50 million each year in fiscal 2010 through 2013 for this program. The grants will concentrate on schools with a high number of Medicaid-eligible children. The Comptroller cannot predict whether school districts would seek or receive these grants or the amount of any grants received and is therefore unable to estimate the impact on the state's economy. **The fiscal impact cannot be estimated at this time.**

Provision **75)** Community transformation grants will be awarded to state and local governments and community-based organizations for evidence-based prevention activities (healthy food options, promotion of health lifestyle, etc.) to reduce chronic disease rates. [4201]

Effective Date April 1, 2010

Fiscal Impact HHS is authorized sums necessary for fiscal 2010 through 2014. Available funding ends October 1, 2014. The Comptroller cannot predict whether state and local governments or community-based organizations would seek or receive these grants or the amount of any grants received and is therefore unable to estimate the impact on the state's budget and economy. **The fiscal impact cannot be estimated at this time.**

Provision **76)** The legislation provides grants to employers with fewer than 100 employees to provide access to wellness programs. The funds will be available for five years. [10408]

Effective Date October 1, 2010

Fiscal Impact HHS is authorized $200 million during the next five years. The Comptroller cannot predict whether businesses would seek or receive these grants or the amount of any grants received and is therefore unable to estimate the impact on the state's economy. **The fiscal impact cannot be estimated at this time.**

Provision **77)** The legislation provides $25 million for childhood obesity prevention demonstration projects. The program ends October 1, 2014. [4306]

Effective Date October 1, 2010

Fiscal Impact The Comptroller is unable to determine if obesity prevention funds will be awarded in Texas. **The fiscal impact cannot be estimated at this time.**

Provision **78)** The legislation allows employers to offer employees discounts of up to 30 percent on premiums and cost-sharing for participating in a wellness program and meeting certain health-related standards. (Current law allows 20 percent discounts.) HHS may raise the ceiling up to 50 percent. [1201]

Effective Date January 1, 2014

Fiscal Impact The provision would allow employers to exceed the 20 percent discounts allowed under law today, to a ceiling of 30 percent. Increased participation in wellness programs may decrease health care usage, offsetting the future costs of health care for employers and employees. **No impact.**

Additional Information

The Comptroller's office continues to monitor the latest developments regarding federal changes to the health care system and will update the fiscal impact estimates included in this report as the supporting rules and other information become available.

For these updates, as well as links to the federal health care legislation and other related information, please go to the Comptroller's Window on State Government website at http://www.window.state.tx.us/specialrpt/healthFed/.

Upcoming Health Care Report

In fall 2010, the Comptroller will publish a larger report examining the effects of health care spending on Texas finances to provide all interested parties with a solid analysis of the overall cost of health care to the state. This report will capture the total costs to the state of health care, including direct health-related services and the accompanying administrative costs. The report also will provide in-depth analysis of factors driving the cost of health care and examine regional differences in costs in the Employees Retirement System and Medicaid.

This document can be found on the Web:
http://www.window.state.tx.us/specialrpt/healthFed/

For additional copies, write:
Texas Comptroller of Public Accounts
Research and Analysis Division
P.O. Box 13528
Austin, Texas 78711-3528

Publication# 96-1424, Printed June 2010

Sign up to receive e-mail updates on the Comptroller topics of your choice at www.window.state.tx.us/subscribe.